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FM AMEMBASSY TEL AVIV
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6872
INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 001127

SIPDIS

E.O. 12958: DECL: 05/28/2017
TAGS: PGOV PINR IS
SUBJECT: OLMERT'S PREDICAMENT LOOKING DESPERATE

REF: TEL AVIV 1021

Classified By: DCM Luis G. Moreno. Reason 1.4 (B/D).

¶1. (C) Summary: Following dramatic televised testimony May 27 by American businessman Morris Talansky that riveted the country and revealed a long history of alleged transfers of large sums of money to PM Ehud Olmert while he was Mayor of Jerusalem and Minister of Industry and Trade, Defense Minister Ehud Barak called for PM Olmert to step down from office. In his May 28 press conference, Barak stated that he does not think the Prime Minister can run the affairs of state and defend his personal affairs at the same time. Barak did not lend credence to the allegations against Olmert nor specify the precise course of action that Olmert should take, noting that several options -- suspension/incapacitation or resignation -- are available. But Barak did indicate that Olmert must form a new government to Labor's liking during the current session of the Knesset (i.e. before July 30, 2008). At the same time, some Labor and Likud MK's are preparing parliamentary motions to dissolve the Knesset should Olmert do nothing. Meanwhile, Kadima leaders -- wary of Olmert's wrath until now -- have begun to plan for party primaries and general elections should Olmert resign precipitously or suspend himself. Olmert has been silent on the latest Talansky revelations, and there are no indications from his office that he intends to step down soon, but a crescendo of criticism from all quarters appears likely to force him to act well before the July 17 cross-examination of Talansky by Olmert's lawyers -- or leave the initiative in the hands of others. End Summary.

Talansky's Cash

¶2. (C) The Talansky Affair (reftel) has been the talk of Israel ever since revelations surfaced that Olmert has received envelopes of cash from this American businessman over a 15-year period from his time as Mayor of Jerusalem to his tenure as Minister of Industry and Trade. The State Prosecutor deposed Talansky on May 27 over the objections of Olmert's office, which failed to convince the Supreme Court to quash the preliminary deposition. Talansky's testimony received heavy television coverage the evening of May 27. Talansky's public airing of a laundry list of substantial gifts and loans to Olmert riveted the nation -- from the Knesset cafeteria to neighborhood barber shops. The Israeli public does not believe Olmert's denials of wrongdoing for private gain, according to public opinion polls..

Coalition Crumbling

¶3. (C) Although the opposition (and, briefly, Tzipi Livni) has clamored for Olmert's resignation since the Second Lebanon War in 2006, the coalition has maintained its cohesion, more out of fear of elections than support for Olmert's continued leadership. The Talansky affair

reawakened anti-Olmert passions and ushered in a reinvigorated push from the opposition for new elections. Although some pundits have bemoaned the precipitous rush to judge Olmert guilty in the Talansky case, no one brandishes a compelling argument for the general public to back Olmert's continued leadership, which has survived multiple scandals but only with serious damage done to the public perception of his integrity.

¶4. (C) With the departure of Yisrael Beiteinu from the government in January, the near-fracturing of the Pensioners Party, and the almost-daily Shas threats of departure, Olmert's coalition has become entirely dependent on the good will of the Labor Party for its continued survival. Barak's May 28 statement, which appears to have the support of Labor Party stalwarts like Minister Ben Eliezer who have generally urged the party leadership to remain in the coalition, now signals that the status quo will not continue. The May 25 announcement by Labor MK Efraim Sneh and former Deputy Defense Minister that he was quitting the party and resigning from the Knesset to form a new party ("Strong Israel") was a bellwether of new elections in the offing.

WHAT NEXT?

¶5. (SBU) DISSOLUTION: The opposition, led by the Likud Party, has had a bill on the table calling for the dissolution of the Knesset in accordance with Article 34 of the Basic Law on the Government. If passed, elections must be held within five months of dissolution. Jumping on the

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bandwagon and going one step further than Barak, the Labor Party's anti-Olmert faction, whose members have long called for the party to quit the coalition (e.g. Ophir Pines-Paz, Eitan Cabel and Shelly Yacimovich), also filed a similar bill to dissolve the Knesset on May 28. (Note: dissolution proceedings are more likely than a vote of no confidence. The latter requires the proponents to name an alternate candidate to be prime minister, and to find a majority in the Knesset to support him/her. Neither Likud nor Labor could easily do so. End Note).

¶6. (SBU) SUSPENSION: The Prime Minister has thus far remained silent on Talansky's testimony and Barak's statement, but his office has indicated that Olmert has no intention of temporarily suspending himself due to "incapacity" -- a move permitted under Article 20 of the Basic Law -- or resigning. Should the Prime Minister opt for suspension, that would leave Tzipi Livni as Acting PM in charge for up to 101 days, a gift to Livni's political career that few observers believe Olmert would make in light of her refusal to publicly back Olmert.

¶7. (C) RESIGNATION: Olmert has publicly stated that he would resign if indicted (reftel), but Israeli law contains impeachment and removal-from-office provisions that would come into play if he did not do so. Thus, the real question in light of Barak's call on Olmert to step aside -- is whether and when Olmert decides to resign. Under the Basic Law's provisions on the continuance of government, the Prime Minister would remain in charge until the President finds another party leader in the current Knesset who is able to form a government. Kadima, which has no designated alternate to Olmert as party leader, would be forced to hold impromptu primaries, and Olmert could help steer a loyal minister such as Minister of Transportation Shaul Mofaz to victory over Tzipi Livni. If Mofaz or Livni (or any other Knesset member) were unable to form a government, then new elections would be held.

¶8. (C) Comment: Barak was careful not to craft his press statement as a condemnation of Olmert's behavior; instead he painted Olmert's predicament as a *prima facie* case of an

incapacity to govern while defending himself from serious allegations. Barak did specify that a new government to Labor's liking would need to be formed before the end of the current Knesset session on July 30. His statement will likely force Olmert to respond well in advance of the next, scheduled episode of the Talansky affair (i.e., the July 17 cross-examination of Talansky by Olmert's lawyers). Kadima leaders are on the move, jostling to recruit party members to support them in prospective primaries. Knesset contacts predict that Israel likely will have early elections sometime shortly after the November 2008 municipal elections. It is too early to predict which parties are prepared to marry up in electoral alliances and no one should discount Olmert's formidable political survival skills, but the proliferation of rumors (e.g., Likud and Yisrael Beiteinu, or even a Labor/Likud emergency government) suggest that the election season has already begun. End Comment.

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JONES